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November 12, 1974

MEMORANDUM FOR LIEUTENANT GENERAL BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Submission of Response to NSSM 212

Attached is our response to NSSM 212, U.S. Security Assistance to the Republic of China. This study was prepared by the Interdepartmental Group for East Asia and the Pacific, which was chaired by the Department of State. It has the concurrence of the Department of State and Central Intelligence Agency. It is still awaiting the final concurrence of the Department of Defense.

Philip C. Habib
Chairman, Interdepartmental Group
for East Asia and the Pacific

Attachment:

Response to NSSM 212

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Declassified/Released on 8/1/97
under provisions of E.O. 12958
by R. Soubers, National Security Council

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NSSM 212

U.S. SECURITY ASSISTANCE TO THE REPUBLIC OF CHINA

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NSSM 212 - U.S. SECURITY ASSISTANCE TO
THE REPUBLIC OF CHINA

November 12, 1974

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-- avoid actions which might lead the PRC to conclude that we no longer have an important interest in the security of Taiwan.

Arms Supply and Taiwan's Security

Along with the deterrent effect of the US-PRC relationship, the US security treaty and the remaining US force presence on Taiwan, ROC access to US military equipment is a major element in Taiwan's sense of security. As our China policy evolves, the relative importance of these elements will change. Access to US arms will become increasingly important to the ROC to the extent that other elements of Taiwan's security equation appear uncertain in its eyes. Specifically, the eventual withdrawal of all US troops or changes in the nature of our security commitment would have that effect.

ROC willingness to rely less on military factors in assuring Taiwan's security has evolved to some extent as a result of the conditioning effects of our policy, but the evolution has been heavily dependent on the assumption of our continued commitment to Taiwan's defense. Somewhat grudgingly the ROC has come to appreciate the deterrent value of the PRC's preoccupation with the Soviet Union and the PRC's related interest in detente with the US. The ROC has thus shown increasing resignation to the inevitability of a growing PRC military superiority and has accepted reduction in US force levels on Taiwan, MAP phase-out and FMS cuts, and non-supply of F-4s. Nevertheless, the view which will continue to permeate ROC society for the foreseeable future is that the PRC remains an unregenerate enemy and that the island's survival is dependent on possession of a credible military deterrent and a continued US commitment to Taiwan's security.

A Political Approach to Arms Supply

Current circumstances necessitate an even more political approach to decisions on supply of arms to Taiwan. The nature and level of our arms supply will obviously affect normalization of our relations with the PRC, but it will also have a major impact on the ROC's tolerance of a changing political and security environment. To date the pattern of our arms supply, while posing no major problems with Peking, has contributed significantly to the flexibility with which the ROC has adjusted to rather drastic changes in its status.

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As our relations with the PRC evolve, however, the ROC may ask for more weapons to help compensate for the weakening of its political and security situation.

Dangers of Sharply Changed ROC Access

Significantly Higher Access -- Although a higher level of supply, which satisfies most ROC weapon requests, could ease ROC adjustment to further changes in the ROC-US relationship, the upward direction would disturb Peking. It could also convey the wrong impression to Taipei about our intent to pursue normalization (i.e., that we were no longer moving further in that direction) and could encourage an inflexible ROC approach to the politics of the Taiwan issue.

Greatly Reduced Access -- Severely reduced access to US equipment leading to an unmistakable deterioration of ROC military capabilities would risk the danger of setting off a train of developments on Taiwan seriously harmful to our (and possibly PRC) interests. This would be particularly true if it coincided with other changes in our China policy. Our performance would be interpreted on Taiwan as clear evidence that we were washing our hands of the Taiwan problem. The ROC political and military leaders would be the quickest to arrive at such a judgment, but the issue is of such fundamental importance that the rest of Taiwan's society, including Taiwanese oppositionists, would not be far behind in arriving at a similar conclusion. The resultant erosion of confidence could lead to political dissension which would threaten the stability of the current leadership, to severe repression of popular unrest by a shaky government, or even to the ultimate disintegration of social order on Taiwan. A panic-stricken government's efforts to deal with a deteriorating situation could lead to desperate attempts to change Taiwan's juridical status or involve others in its fate. The readily perceived direct US responsibility for this state of affairs would confront us with serious problems at home and abroad.

Effect on ROC Military Nuclear Program -- Loss of confidence in the US could lead the ROC to intensify efforts to acquire a military nuclear capability. To date these efforts have been effectively inhibited by our firm and explicit opposition and by an unwillingness to jeopardize Taiwan's rapidly growing civilian nuclear

power program which is hostaged to the US because no other country can legally supply reactors to the ROC. Nevertheless, the ROC has not abandoned its covert military nuclear energy research program and it probably possesses most of the technological know-how for the development of a nuclear device. It has a small safeguarded Canadian heavy water reactor (similar to that used by the Indians), but was blocked by us from acquiring a chemical separation facility necessary to extract plutonium.

The inhibitions which have kept the ROC in line could be swept aside by a ROC calculation that a nuclear capability was required as an effective substitute for the vanishing US security commitment. However, it would still take the ROC considerable time to fabricate a nuclear device.

Peking's Viewpoint

We do not know with precision the extent to which at any given time our military relationship with the ROC is an obstacle to normalization of relations with the PRC. Peking keeps careful track of ROC military capabilities, but it does not appear to conduct this assessment in isolation from other political factors. US arms supplies are only one variable in a more complicated equation in which other aspects of the relationship between Washington on the one hand and Taipei and Peking on the other, as well as the overall international situation in East Asia, are all factors.

Peking obviously does not desire that US support for the ROC should be offered at a level that might cause the leadership in Taipei to conclude that it is essentially invulnerable to pressures. On the contrary, it would like to see an attenuation in the US military relationship with the ROC sufficient to demoralize the ROC to the point where it would be receptive to political accommodation. Nevertheless, there have been indications from Peking that it does not wish our presence in Taiwan -- of which arms supply is an aspect -- to be withdrawn so fast that others would be tempted to intervene or that uncontrollable changes on the island become likely. In any event, our military involvement

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with the ROC will be monitored by a PRC suspicious about our ultimate intentions on Taiwan. Insensitivity in our handling of this issue could undermine the position of those within the PRC who advocate normalization or lead them to a change in attitude.

Particular PRC Sensitivities -- Given these various and somewhat conflicting considerations, it seems reasonable to conclude that Peking would be bothered by an indefinite and formal US military involvement with Taiwan. In this general context, the following US actions would appear to be particularly bothersome to Peking:

-- The introduction into Taipei's arms inventory of weapons which were clearly offensive in nature (e.g., strategic bombers, long-range missiles, or modern amphibious equipment);

-- The creation in Taiwan of a domestic capacity to produce -- or co-produce -- sophisticated weapons (e.g., advanced aircraft or major missile production capabilities);

- The provision on a high priority basis of the most advanced weapons in the US inventory (e.g., F-15 aircraft, TV guided bombs, advanced ECM systems);

-- The rapid introduction of large quantities of weapons into Taipei's inventory (e.g., an ENHANCE PLUS type of program).

An additional factor relating to delivery schedules ought also be considered. Given the long lead time before various weapons systems which presently interest the ROC would be available for delivery, the actual arrival of such weapons on the island -- even if agreement on delivery were made well in advance and even if Peking became aware of such an agreement -- might occur in a somewhat changed international environment resulting from further progress in normalization of relations with Peking. At that time the PRC might react strongly to the introduction of the weapons on the island, even though the agreement with the ROC for the supply of the weapons had been reached under different circumstances.

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Room for Maneuver Narrowing

We will continue to be confronted with ROC demands for weapons which are unacceptable given our policy toward the PRC, as well as displays of PRC displeasure over our having any military dealings with the ROC. To date both sides have not evidenced a serious expectation of complete satisfaction of their respective positions because they judge their overall interests require concessions to US views on the Taiwan problem. As normalization proceeds, we will have less room for maneuver in dealing with the issue of arms supply to the ROC, especially as we complete substantial withdrawals of our forces from Taiwan and as the focus shifts to other elements of our security relationship with the ROC.

Third Country Sources

Under prevailing international circumstances there is little prospect of the ROC finding reliable third country sources of major weapons. It is doubtful, for example, that any of the few nations capable of producing advanced aircraft would risk endangering their relationship with the PRC by providing such a high profile weapon to the ROC. However, some weapons would be available to the ROC from third country sources which, within limits, could spare us problems with the PRC that might arise if we provided such weaponry. Israel and possibly Italy are prepared to supply surface-to-surface missiles to the ROC and Taipei apparently would not have much difficulty in obtaining patrol craft from European sources. Moreover, through packages comprised of various third country components the ROC could probably satisfy some of its electronic and naval requirements. Light arms would be readily available to the ROC on the international market, although at a cost to logistical efficiency. Nevertheless, third country channels will represent limited and unreliable sources of supply for the ROC and will not appreciably reduce our key role in maintaining a credible ROC military deterrent.

Technological and Economic Factors

The ROC has had no serious technological difficulties in handling the present levels and sophistication of US equipment and would be technologically capable of absorbing any of the weaponry contemplated under the

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options presented later in this paper. Present projections indicate that Taiwan's economic resources would be sufficient to permit purchase of certain new weapon systems even in the event of drastically reduced FMS and Excess Defense Articles availabilities. Over the next five-year period, however, the capability of the ROC economy to support continued increases in defense spending at past rates will diminish. Moreover, the ROC would have to greatly reduce the size of its bloated army and would have to sacrifice much of its current economic infrastructure program if it were to try to greatly improve its current military capabilities vis-a-vis the PRC. (A discussion of ROC Economic Capabilities is presented in Annex A.)

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PRC Military Threat to Taiwan

Although political factors will play an even greater role in determining our position on supply of military equipment to the ROC, the strictly military aspects of Taiwan's security and the ROC's preoccupation with these must be considered. The PRC military threat to the ROC as summarized below and discussed in Annex B assumes that there will be no change in the PRC-USSR confrontation; that the PRC will neither use nor threaten to use nuclear weapons in invading Taiwan; and that the US will not intervene at least initially in the event of a PRC attack:

- 1) The Sino-Soviet border confrontation is a major constraint on Chinese military resources. This confrontation will continue to tie up more than 40% of the PRC ground and air forces and the strongest of its three naval fleets -- the North Sea Fleet -- for an indefinite period. Nevertheless, the remaining available PRC forces would be sufficient to overcome ROC defenses;
- 2) The PRC Air Force could gain air supremacy over the Taiwan Strait in a period of perhaps two or three weeks although only by accepting extremely high losses to the more sophisticated but considerably smaller ROC Air Force. Such losses would gravely compromise Peking's air arm. This assessment assumes the completion of the ROC's co-production program of 100 F-5Es and the provision of adequate hardening and anti-aircraft artillery and missiles for key ROC air defense assets;
- 3) The PRC, utilizing only units of its East Sea Fleet, would establish naval supremacy in the Taiwan Strait. If control of the air had been gained, this could be accomplished in short order, perhaps in a matter of days. Once such supremacy is established, PRC naval forces could isolate the off-shore islands and effectively blockade Taiwan's ports.

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- 4) Either prior to or concurrent with the establishment of air and naval superiority, the PRC could assemble, load, dispatch, and assault beaches on Taiwan with an amphibious force of some 30,000 infantry troops with equipment plus an additional 75,000 lightly equipped troops by using some 500 small landing craft. (These landing craft, which are largely 60-90-foot LCN's and which are normally devoted to non-military uses, are all that the PRC is known to have, and thus would have to be mobilized country-wide.) These forces could probably maintain a beachhead for several days -- long enough to be reinforced in strength, if air and naval superiority had been established.
- 5) In three to five years, the PRC's capability for a successful attack could be improved through acquisition of air-to-air missiles and additional more advanced aircraft.

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ROC Force Composition

The ROC's inability to withstand a determined PRC attack on its own has necessarily required military contingency plans under the Mutual Defense Treaty for active participation of US air and naval forces in Taiwan's defense in the event of such an attack. Such planning, however, assumes that the ROC would have to meet the first four to five days of a PRC attack with its own forces, giving us time to resort to diplomatic efforts to end the conflict and to assess the need and extent of US involvement in the defense of Taiwan.

Given Taiwan's location, the nature of the PRC threat, and role ROC forces would have to play in the island's initial defense, the optimum structure of the ROC military force would be:

- an Air Force designed primarily for air-to-air capability against fighters, bombers and airlift forces, and for countering a PRC naval attack;

- a navy capable of withstanding attacks by PRC submarine forces and missile-equipped surface craft and of countering PRC amphibious forces in coordination with the ROC Air Force;

- a relatively small but mobile and well-equipped ROC Army, including surface-to-air missiles for air defense, backed by a trained reserve force.

ROC Deficiencies

Existing major ROC deficiencies in achieving such a military force are as follows:

Air Defense -- The replacement of older aircraft with 100 F-5E aircraft under the current co-production program will provide the ROCAF with a strong air combat capability for the next few years. Completion of this program, however, will still leave the Air Force with over 100 older aircraft (F-104's and F-100's) which should be replaced in the early 1980's. In addition, the ROCAF will presumably continue to require at least some all-weather interceptors, a role now

filled by 36 F-104G's. These also will need to be replaced within the next five to ten years. Depending on PRC capabilities, the ROC may require a follow-up aircraft such as the YF-16 or 17 for the 1980's.

ROCAF facilities on the ground remain vulnerable to PRC bombardment, and improvements are necessary. An aircraft shelter program, introduction of two battalions of the improved HAWK surface-to-air missile, one of which has already been approved by the USG, and acquisition of modern anti-aircraft artillery such as the Vulcan system would help correct these deficiencies. In addition, improved command and control equipment for the ROC air defense system, including improvements in the air operations center, are necessary.

Defense Against Naval/Amphibious Attack -- The Navy is probably the weakest of the ROC services, and has the most immediate deficiencies. Not only is it greatly outnumbered by PRC naval forces, but its ships are inferior. Its most critical deficiency is the limited defense against the PRC's high speed patrol boats equipped with Styx anti-ship missiles. The Navy is also hampered by a limited anti-submarine warfare (ASW) capability. Finally, incompatible communications between the Navy and Air Force, and questionable Air Force capabilities against surface ships result in serious naval defense deficiencies.

Improved electronic countermeasures (ECM) equipment on ROC ships would reduce their vulnerability to attack by the PRC's Styx missiles, but the most effective counter would be for the ROC to obtain its own anti-ship missiles such as Harpoon. These would best be mounted on high-speed patrol boats; construction of five such craft under a co-production arrangement has already been approved by the USG. The ROC's deficiencies in ASW are of less immediate importance. These could be remedied with improved aircraft (16 S-2E ASW aircraft were recently approved for sale to the ROC), improved sonar and improved torpedoes for the ROC's destroyers. Finally, a compatible communications system for ROC ships and aircraft and improved anti-ship munitions for the ROCAF, perhaps laser guided bombs, would add considerably to the ROCAF's ability to participate in defense against an amphibious attack.

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OPTIONS

Introduction

The options presented below relate the question of supply of military equipment to the ROC to our overall China policy objectives. They range from handling the issue in a manner designed to minimize arms supply as an obstacle to US-PRC normalization to one designed to maximize ROC confidence in the US security commitment.

The options were developed on the assumption that over the next three to five years the political and psychological importance of US supply of weapons to the ROC will be greater than the objective military importance of the weapons themselves. Both the ROC and PRC will view our handling of this issue as an indicator of the relative importance the US attaches to each. Nevertheless, their reactions to what we do in this sphere may be asymmetric. As an example, the ROC would regard a significant restriction on its present access to weapons as a serious matter while the PRC response might not be equivalently favorable.

It is also worth reiterating that ROC arms access cannot be considered in isolation from the other elements of Taiwan's security: the deterrent effect of US-PRC relationship, our defense commitment and the remaining US force presence. Not only are these elements inextricably bound up, but their relative importance can -- and will -- shift markedly depending on events.

Option I, Complete Cut-Off of Access to US Equipment, would completely terminate ROC access to US arms, either immediately or gradually over the next three to five years. Option II, Freezing ROC Access to Current Types and Levels, would restrict ROC access to replacement of items already in its inventory (e.g., the F-5E program would be completed and could be extended to replace additional obsolescent aircraft on a one-for-one basis); no new weapons systems would be authorized. Option III, Limited ROC Access to New Weapons, would at its lower range permit ROC access to some additional and new weapons which we would judge as unlikely to be provocative to the PRC (e.g., improved air-to-air missiles and possibly Harpoon missiles); at its upper range, we would permit access to new weapons which run a higher risk

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of provoking the PRC if we thought such weapons were necessary to shore up ROC confidence or to counter a growing PRC capability (e.g., Harpoon missile and ASROC). Option IV, Substantial ROC Access to New Weapons, would permit ROC access to a broad range of new weapons systems (e.g., large number of laser-guided bombs and YF-16 or 17 aircraft as follow-on to F-5E). Under all of these options, even Option I, we would not interfere with ROC purchases from third countries, unless under exceptional circumstances; in some cases we might encourage such ROC purchases.

We have considered these options in light of the following criteria:

- 1) the impact on our objective of reducing the military component of Taiwan's security;
- 2) the effect on US-PRC normalization;
- 3) the effect on Taiwan's confidence and stability;
- 4) the deterrent effect against a PRC use of force to resolve the Taiwan issue;
- 5) the effect on chances of ROC-PRC political accommodation;
- 6) the ROC's economic and technological capabilities.

Option I. Complete Cut-Off of Access to US Equipment

This option would seek to eliminate or minimize to the greatest extent possible the issue of US arms supply to Taiwan as an obstacle to normalization of relations with the PRC. At the lower range of the option, ROC access to US arms would be terminated abruptly. At the upper range, ROC access would be phased out over the next three to five years. In either case, the cut-off would be complete: no additional equipment or spare parts would be authorized for sale to Taiwan.

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Advantages:

-- would promote normalization of US-PRC relations;

-- would impose least economic burden on the US and ROC;

-- upper range of option could ease PRC pressure for an abrupt arms supply cut-off, while offering ROC transitional period to adjust to new reality;

-- could be used as bargaining chip in negotiations with Peking;

-- although at the risk of chaos on Taiwan, would increase pressures on ROC to seek accommodation with the PRC.

Disadvantages:

-- would cause deep erosion of ROC confidence, leading to possible disintegration of social order or desperate acts which could complicate rather than ease US-PRC relations; our direct responsibility for such consequences would confront us with serious problems at home and abroad;

-- could cause PRC to miscalculate our intentions with respect to Taiwan, tempting it to use, or more likely to threaten to use, force as Taiwan's defense capabilities rapidly deteriorate;

-- would result in a severe decline in our influence with the ROC;

-- so long as security treaty remained in effect, would necessitate earlier and more substantial US role in meeting our defense commitment in event of PRC attack;

-- might prompt accelerated ROC efforts to develop nuclear weapons;

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-- could cause serious concern in other Asian nations dependent on the US;

-- would endanger US investment on Taiwan.

Option II. Freezing ROC Access to Current Types and Levels

This option would place new limitations on arms supply to the ROC in order to improve the climate for US-PRC normalization. Over a three to five-year period it would involve an unmistakable deterioration of ROC military capabilities relative to the PRC. Under this option we would permit continued access to spare parts, replacement of equipment of items already in the ROC inventory and certain improved models made necessary by phase-out of weapons in the US inventory (e.g., F-5Es, improved Hawk missiles). Under this option no new weapons systems would be authorized. An illustrative list of the kinds of equipment which could be provided under this option is at Annex C I.

Advantages:

-- could for a time at least reduce arms supply as obstacle to normalization of US-PRC relations;

-- would for the next few years maintain a credible ROC military deterrence;

-- would preserve some elements of our arms relationship with the ROC as a bargaining chip for later use with Peking;

-- would reduce US economic burden;

-- could over time help convey to the ROC our interest in its seeking accommodation with the PRC.

Disadvantages:

-- as departure from present practice would erode ROC confidence in US support, possibly leading to instability on Taiwan or to ROC moves which could complicate our relations with the PRC;

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-- could over time tempt PRC to threaten the use of force since disparity in relative military power in the Taiwan Strait area would gradually increase;

-- to extent ROC's self-defense capability is limited, would imply earlier and more extensive US role in the event of PRC attack;

-- might prompt accelerated ROC efforts to develop nuclear weapons.

Option III. Limited ROC Access to New Weapons

This option is divided into a lower and upper range. Under the lower range the ROC would not be permitted to obtain "controversial" new equipment; under the upper range we would permit limited acquisition of such equipment. We would define "controversial" as any major, new weapon which would be seen by the PRC as providing the ROC clear technological superiority or altering the current relative military "balance". Since we cannot be confident in assessing Peking's views, we would also have to take into account the role in the US inventory, and popular "image" of the weapon.

Under the lower range, we would permit the ROC to replace or modestly increase existing equipment (including F-5E aircraft), and would also permit it to obtain new equipment which is not "controversial" (e.g., anti-tank missiles, certain kinds of ECM equipment, improved command and control systems for air defense; the Harpoon missile to counter the rapidly growing PRC Styx missile boat threat would be a borderline case). We assume the ROC would turn where possible to third-country sources for "controversial" weaponry and we would not interfere. Our objective under this lower range of equipment supply would be to maintain a balance between
accommodating PRC sensitivities and fulfilling ROC needs
for psychological confidence in its security. An illustrative list of the kinds of equipment which could be provided under this lower range option is at Annex C II.

Under the upper range, we would permit the ROC to replace and modestly increase existing equipment, including a limited number of new equipment items the PRC might consider "controversial", but which would help to maintain ROC confidence in US intentions and in its ability to

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deal with what it perceives to be serious and growing PRC capabilities. However, if there were alternative sources of such "controversial" equipment available to the ROC, we would not feel compelled to supply our equipment. The objective would be to give, within limits, greater emphasis to ROC psychological concerns over its security, while accepting some risk of PRC displeasure over our actions in the arms supply area.. We would have to make a careful case-by-case examination of all ROC requests keeping in mind that the extent to which any weapons system is "controversial" might well change, either over time or because of other changes in the relationships between the US and the two Chinese parties. Under this option we would provide the Harpoon missile or laser guided bombs. An illustrative list of the kinds of equipment which could be provided under this upper range option is at Annex C III.

Advantages:

- should be sufficiently reassuring to ROC (particularly at upper range) to prevent instability on Taiwan or acts of desperation; would cushion the impact of any further changes in the ROC's political environment;

- provides flexibility to deal with weapons supply in the context of evolving US China policy and probable changes in other elements of Taiwan's security;

- would maintain credible, though gradually deteriorating, ROC military deterrent;

- would inhibit PRC temptation to use force;

- would provide the US with a bargaining chip in later negotiations with the PRC.

Disadvantages:

- particularly at upper range could give rise to both PRC and ROC doubts about our interest in normalization and peacefully resolving the Taiwan problem;

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-- might involve modest risk to ROC (particularly at lower range) by acquiescing in a gradual deterioration of ROC defense capability relative to that of the PRC;

-- provides the least precise practical guidelines for judging specific items of military equipment;

-- at upper range would place strain on ROC economic capabilities;

-- long lead times for many new weapons systems may lead to misunderstanding of US intentions by PRC when weapons delivered.

Option IV - Substantial ROC Access to New Weapons

Under this option we would permit the ROC to attempt to maintain or enhance its military capabilities relative to those of the PRC. The ROC would be permitted to increase its inventory of weapons systems already held, and also obtain new weapons systems in significant numbers. The distinction between "controversial" or "non-controversial" equipment would be minimized, but not ignored, and we would continue to prevent the ROC from acquiring a serious offensive capability for use against the PRC. Our objective under this option would be to use arms supply as a means of enhancing ROC confidence in its security and of minimizing the effects of any other changes in our security relationship with the ROC. Under this option we would provide both Harpoon missiles and laser guided bombs and eventually YF-16 or 17 follow-on aircraft. An illustrative list of equipment which would be provided under this option is at Annex C IV.

Advantages:

-- by maximizing ROC confidence, would entail least risk of ROC instability or acts of desperation and would cushion the impact of any further changes in its political environment;

-- greater ROC capability might reduce need for more direct US involvement in Taiwan security.

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Disadvantages:

-- would hinder normalization of US-PRC relations and the wider US objectives associated with it;

-- would mislead ROC about US interest in achieving a peaceful resolution of the Taiwan problem in keeping with Shanghai Communique;

-- strain in US-PRC relations would reduce the political deterrent against a PRC attack;

-- would place maximum burden on the ROC economy, and would require substantial new US financial assistance;

-- PRC would be likely to view this course as an increased threat to it, and might augment its own forces in the area;

-- long lead times involved would mean deliveries into late eighties of approvals within this period.

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ROC Economic Capabilities

The economic factors which will determine the amount and pattern of ROC defense expenditure over the next five years are those of GNP growth, budget allocation and foreign exchange availability. We do not anticipate that any of these will constrain the ROC from making planned defense modernization purchases. Uncertainties, particularly with regard to foreign exchange availability, make it impossible to say how much more they may be able to spend.

For the past decade, ROC defense expenditures as a percentage of GNP have fluctuated around 9-10%, remaining below the benchmark of 10% believed to be the upper limit set by the government. Consequently, while the military burden remained heavy, rapid economic growth permitted large rises in military expenditures without unduly burdening the economy. Over the next five-year period, however, the capability of the ROC economy to support continued increases in defense spending at past rates will diminish. The run of double-digit rates of real economic growth enjoyed by the ROC in the past has ended. The projection for 1974 is 6-7%, and the ROC has signaled its acceptance of lower future growth rates in its New Economic Development Plan which projects an average annual rate of real growth of 8% through 1984 (see attached table). Moreover, the susceptibility of Taiwan's economy to international shocks will remain, as will her continuing dependence on limited sources of external finance, markets abroad for her exports, and imported raw materials.

The current FY 75 budget reflects the government's determination to proceed with its planned defense program in spite of rising costs. Expenditures budgeted for defense have risen from \$771 million in FY 73 to \$1.12 billion in FY 75 and are

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expected to reach \$1.5 billion in FY 79 (see table). As a percentage of GNP, however, defense expenditures have declined from 9.9% in FY 73 to 8.6% (of projected GNP) in FY 75. Assuming annual rates of economic growth of 7-9%, self-financed defense expenditures should remain at 8-8.5% of GNP through FY 79 (when projected GNP will reach approximately \$17.6 billion). It would be safe to assume that it is very unlikely defense expenditures would -- at a maximum -- exceed the 10% (of GNP) barrier, or \$1.76 billion in 1979.

Foreign exchange expenditures on defense, including debt servicing, totaled \$207.3 million in FY 73. The foreign exchange cost of required material for the government's weapons acquisition/modernization program over the next five years is projected at \$1.15 billion, requiring an average annual outlay of about \$230 million (see table). However, debt servicing estimated at \$62 million in FY 1975, is projected to rise to \$98 million by FY 1979 and FMS credits are expected to decline from \$80 million in FY 75 to \$10 million in FY 79. Thus, a foreign exchange shortfall is likely to occur. To obtain additional funds to cover this shortfall, the government would likely resort to additional international credit financing or a drawdown of foreign exchange reserves. Backed by its substantial reserves, \$1,708 million at the end of August, 1974 and targeted to remain reasonably constant after 1975 at \$1.4 billion, additional credit should be obtainable by the ROC. If the ROC chose instead to drawdown reserves to finance the shortfall, it would have little effect on its international financial position.

While we feel reasonably confident that there will be sufficient exchange reserves to cover planned expenditures and even a modest shortfall, little can be said with assurance about maximum amounts of foreign exchange which might be available. Although current reserves are substantial, the government is now deeply committed to ten major infrastructure projects costing approximately \$6 billion, energy costs are up sharply

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and overseas inflation rates are far from predictable. Illustrative of the fluctuations made possible by these factors is the \$1.45 billion turn-around -- from a \$700 million surplus to a \$750 million deficit -- in the ROC trade balance projected for 1974. Thus we can only suggest caution in using estimates of foreign exchange availability, the principal constraint on future weapons acquisition.

Clearly the ROC would have little difficulty in meeting the cost of US purchases contemplated in Option II. The ROC's projected resources are also adequate to meet the costs associated with Option III, though some strain would be likely in the upper range of this option. Option IV would almost certainly require substantial and continuing drawdowns of foreign exchange reserves. While some foreign exchange for this purpose is likely to be available, the leeway for additional purchases beyond those planned will be sharply circumscribed by energy costs and inflation abroad and other important demands at home.

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ROC Defense Expenditures
(\$US Millions)

4.

	FY 1973 <u>2/</u>	FY 1975	FY 1977	FY 1979
1/ Targeted Foreign Exchange Reserves (calendar year)	7,710 1,100	12,983 1,400	15,144 1,400	17,665 1,400
Defense Expenditures				
Total <u>3/</u>	771	1,119	1,287	1,502
As % of GNP	9.9	8.6	8.5	8.5
As % of Central Government Budget <u>4/</u>	59.9	50.0	N/A	N/A
Projected Foreign Exchange Expenditures <u>5/</u>	207	230	230	230
Of which Debt Service	N/A	62	84	98
Foreign Exchange Expenditures and Debt Servicing as % of GNP	2.7	1.8	1.5	1.3
Projected FMS Credits <u>6/</u>	45	80	35	10

FY 1975 - 79 GNP projections are based on an 8% average annual rate of growth

FY 1973 figures are actual; all the rest are projections or, in the case of foreign exchange figures, GROC "targets"

Includes both local currency and foreign exchange expenditures

Approved budget

Average annual outlay required based on projected FY 1975-79 total expenditure of \$1.15 billion

Does not reflect true economic value which is difference between FMS terms and those available commercially

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ANNEX B

Discussion of the PRC Military Threat

Implications of PRC-Soviet Confrontation

As a result of the Sino-Soviet confrontation, PRC military forces deployed in the northern military regions of Shenyang, Peking, Lanchow, and Sinkiang along the Sino-Soviet border are probably not available for any direct assault on Taiwan from the mainland. Elements of naval forces in the North Sea Fleet are probably equally unavailable, although some units could be redeployed as was the case in the Paracel Island incident. The forces that are not available include:

Ground Forces	1.6 million
Air Forces	2,000 (fighters and bombers)
Naval Forces	
(North Sea Fleet)	29 subs, 6 main surface force units, 44 missile boats, 78 torpedo boats

PRC Forces Available for Attack

The remaining PRC forces are available for an attack on Taiwan and Pescadores. About half of these 1.9 million ground force troops could form a manpower pool from which an invasion force could be drawn, with the remainder tasked to defend the periphery of China and provide coastal and internal defense. Forces for an assault on Taiwan include at least:

	<u>1974</u>	<u>1977-1979 (est)</u>
Ground Forces	950,000	950,000
Naval Forces (East Sea Fleet)	22 submarines 3 main surface force vessels 79 missile boats 106 torpedo boats	30-35 submarines 16 main surface force vessels 100-110 missile boats 110 torpedo boats
Air Forces	2200 fighters and bombers: 970 MIG 15/17 air defense fighters 900 MIG-19 air defense fighters 100 IL-28 bombers	2500 fighters and bombers: including approxi- mately 900 MIG-19 air defense fighters and 430 F-9 ground attack fighters

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1974

120 F-9 ground
and attack fighters
40 TU-2 bombers
70 MIG-15/17 ground
attack fighters

Elements of the South Sea Fleet would be available for augmentation as required.

Scenario for Direct Assault

A successful attack on Taiwan would require that the PRC achieve air superiority over Taiwan and the Strait area. This objective could be accomplished but only at fearful cost. The PRC has an overwhelming edge in the number of aircraft that could be used -- up to 2,200 fighters and bombers against the ROC's 250 fighter aircraft -- but suffers from inadequate training and an apparent dearth of air-to-air missiles. As a defensive combat element, the small ROC fighter force, however, has superior aircraft, a reliable air-to-air missile and a corps of skilled and experienced pilots. In addition, Taiwan itself is defended by 96 Nike and Hawk SAM launchers.* Nonetheless, by disregarding losses, the PRC could eliminate the ROC air threat.

Following neutralization of the ROC air threat, the large PRC East Sea Fleet could quickly eliminate the smaller, less well-equipped ROC Navy. The East Sea Fleet alone could provide limited screening and pre-invasion bombardment of selected landing beaches on Taiwan's west coast. Simultaneously, it could effectively seal off the off-shore islands and all Taiwan ports and harbors making it impossible for military supplies to be brought into Taiwan by sea.

From the pool of some 950,000 men available for an amphibious assault on Taiwan, only a small proportion -- about 100,000 -- could be sealifted using all thirty of the Navy's amphibious ships and some 500 small landing craft. Approximately two divisions or 30,000 infantry troops with all their equipment could be transported in the amphibious ships. The remainder, some 70,000-odd lightly-equipped troops could be carried by some 500 small landing craft. Although the ROC Army includes over 300,000 personnel and 600 tanks, the PRC forces could probably maintain a beachhead for several days -- long enough to be reinforced in strength.

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*Each of the 72 Nike Launchers has 2 missiles; each of the 24 Hawk launchers has 6 missiles.

In mounting the amphibious assault the Chinese would probably use their limited airlift capability to paradrop an airborne regiment to help seal-off a landing beach, to seize an airfield for follow-on air-lifted landing or air resupply operations, or, if an administrative landing were planned, to capture and hold a port in Taiwan to receive the main invasion force. On the other hand, a lightly-equipped and small airborne force could be quickly isolated and eliminated by a numerically superior opposing force.

Scenario for Blockade

In order to establish an effective blockade of Taiwan, it would be necessary to neutralize Taiwan's air and air defense capabilities as in the scenario for direct assault. The East Sea Fleet's missile boat force and small patrol craft force could isolate Chinmen and Matsu and prevent sea resupply of forces garrisoned on these islands. The main surface fleet units equipped with the Styx missile together with the attack submarines of the East Sea Fleet could establish an effective blockade after neutralizing the ROC's conventionally armed navy.

The Situation in 1977-1979

In three to five years, the PRC's prospects for successful attack, although still uncertain, could be improved by the acquisition of air-to-air missiles and by additional more advanced aircraft. The ROC air force, on the other hand, is in the process of acquiring 100 F-5E's which can match anything the PRC is likely to obtain. Research and development on improved aircraft are proceeding on the mainland, although it is unlikely that substantial numbers could be available by 1979 for deployment against the ROC.

The disparity in capabilities between the PRC and ROC navies will probably widen in the next three to five years. If the current trend continues, the East Sea Fleet alone will add 9 to 15 submarines, four MSF units, and 22 to 40 missile boats. ROC naval units probably will be equipped with an anti-ship and anti-air missile capability in the next 3 to 5 years, but the overall navy is expected to grow more slowly than the PRC navy.

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PRC amphibious capabilities probably will not increase to an appreciable degree. The PRC has shown little interest over the past two decades in expanding their small force, which consists mainly of US World War II landing craft, mostly 30 years of age or older.

China's airlift capabilities almost certainly will continue to grow over the next three to five years. New transports useful in military airlift operations are being added each year through purchase from the USSR, UK, and US. China has four air-transportable divisions totaling some 30,000 troops. Only 5,000 or so paratroops can be air-lifted at one time by using all available military and commercial transports. It is unlikely that China foresees a need for additional airborne units, so these forces will remain about the same over the next three to five years.

China's capability to establish a blockade of Taiwan's ports and harbors will probably increase in the next three to five years. The PRC's navy already substantially larger and better-equipped than the ROC navy, will grow at a faster rate than the ROC navy. Its naval superiority in 3-5 years will be greater than at present, despite the anticipated addition of an anti-ship and anti-air missile capability to the ROC's naval fleet.

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ANNEX C I

OPTION II - FREEZING ROC ACCESS TO CURRENT TYPES AND LEVELS

The following is an illustrative list of the kinds of equipment which could be made available to the ROC under Option II:

<u>Item</u>	<u>Comment</u>
F-5E aircraft	completion of present co-production program of 100 and additional aircraft but <u>only</u> to replace older models on one-for-one basis
F-104 aircraft	as replacement for currently held F-104's or other models
High speed patrol boats (not hydrofoils)	5 authorized; no additional except as replacements; Harpoon missiles <u>not</u> provided
Improved Hawk battalion	already approved; no increase beyond current one battalion
S2E ASW aircraft	sale of 16 approved; no additional except as replacement

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ANNEX C II

OPTION III - LIMITED ROC ACCESS TO NEW WEAPONS
LOWER RANGE

The following is an illustrative list of the kinds of equipment which could be provided to the ROC under the lower range of Option III:

<u>Item</u>	<u>Comment</u>
F-5E and F-5B aircraft	in addition to 112 aircraft already approved
AIM 9E and AIM 9J air-to-air missile	
HH-3E helicopter	long-range search and rescue
High speed patrol boats, but not hydrofoils	up to 5 already approved; would approve up to additional 10
Harpoon Missiles	would have to carefully consider the implications of provision on normalization; failure to provide Harpoon would encourage ROC to attempt to obtain substitute weapons from third country source to counter the rapidly growing PRC Styx capability
MK 46 torpedo	for ASW use by surface ship
S-2E aircraft	for ASW use; sale of 16 already approved
Improved Hawk Battalion	one battalion already approved; could approve two additional
Vulcan air defense artillery	for ROC Army
Vulcan/Phalanx air defense artillery	for ship board installation
Improved air operations center	
9-2 aircraft	for forward air control and observation for ROC Army
UH-1H helicopters	in addition to 100 already authorized

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ANNEX C III

OPTION III - LIMITED ROC ACCESS TO NEW WEAPONS
UPPER RANGE

Would include all items of equipment listed in Annex C II (although perhaps in greater numbers) and in addition:

<u>Item</u>	<u>Comment</u>
Harpoon anti-ship missile or laser-guided bombs	to counter the rapidly growing PRC Styx capability
C-130-H transport aircraft	to replace current fleet of C-119 transports
C-131 transport aircraft	same as above
SH-21 helicopters	for ASW and anti-ship missile defense
ASROC (anti-submarine rocket)	anti-submarine missile launched from surface ships with homing torpedo

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ANNEX C IV

OPTION IV - SUBSTANTIAL ROC ACCESS TO NEW WEAPONS

Would include all items of equipment in Annex C II and III, and in addition:

<u>Item</u>	<u>Comment</u>
Improved follow-up fighter aircraft	could be YF-16 or YF-17
All-weather fighter/bomber	probably F-4E
Improved reconnaissance aircraft	probably RF-4C
MK 37 Torpedos	for use by submarines
P-3 ASW aircraft	P-3 is four-engine, long range and long endurance aircraft
Convert selected destroyers to guided missile destroyers	
Harpoon anti-ship missile	would be provided even if similar weapons were available from third countries
Laser-guided bombs	

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